

Chapter 7

Gavin Newsom's Second State Budget Arrives at Jerry Brown's Cliff

California Policy Options 2021

Daniel J.B. Mitchell

Professor-Emeritus, UCLA Anderson School of Management
and UCLA Luskin School of Public Affairs.

*Detour,
There's a muddy road ahead,
Detour
Paid no mind to what it said
Detour,
Oh these bitter things I find,
Should have read
That detour sign.*

"Detour (There's a Muddy Road Ahead)" (Song, 1945)¹

Former California Governor Jerry Brown was asked in 2018 what problem might confront his successor and replied the successor would be "*on the cliff*" and what lay beyond was "*darkness, uncertainty, decline and recession*."² It turned out to be true. During fiscal year 2019-20, the California economy, and with it the state budget, suddenly took a detour from its past Good Times trend. By July 2020, Governor Newsom made it explicit, saying "*we are walking towards the edge of a cliff*."³ In this chapter, we examine the sudden change in the budget outlook due to the coronavirus crisis and the general political environment surrounding the state budget's adaptation to a situation that was unforeseen until early 2020.

Because of a buildup in reserves and other resources prior to the crisis by Brown, the state was initially able to adapt initially to the coronavirus crisis with a combination of budget cuts and draw-downs of reserves. However, it remains unclear at this writing as to how the coronavirus situation will evolve, an evolution that depends on factors such as the possible development and distribution of a vaccine and/or improved treatments. The budget also depends on political developments at the national level including the provision of federal financial assistance to California and the outcome of the 2020 national and state elections.

California's State Budget

*You make good when you make a promise
No, I'm not a doubting Thomas
But, honey, are you making any money?
That's all I want to know.*

"Are You Making Any Money?" (Song, 1933)⁴

¹Paul Westmoreland. <https://www.youtube.com/watch?v=MQ-M81JBYYc>.

²The statement can be found at <https://www.youtube.com/watch?v=wfhpeADKKY8>.

³Quoted in "More executive orders likely," *CalMatters/WhatMatters* email service, July 24, 2020. Available at <https://us11.campaign-archive.com/?e=cd8ca92ba1&u=5f4af3af825368013c58e4547&id=a46b0b4a85>.

⁴Herman Hupfeld. <https://www.youtube.com/watch?v=qjPOr5C05T8>.

Before we can review the course of events that led to the enactment of the 2020-21 budget, we need to go over some budgetary basics. Things are not always what they seem when politicians and officials describe the state budget. It is not always clear what definition of “the” budget they are talking about or what period they are encompassing. Even common English words such as surplus and deficit take on varying meanings.

Often there are vague references in news accounts and even in official statements to budget “gaps,” “holes,” “problems,” or “shortfalls,” terms that are not defined in accounting textbooks and have no fixed meanings. Elected officials may sometimes find it in their interest to use words and definitions that suggest everything about the budget is under control. However, sometimes they may want to select definitions and wordings that suggest that the budget challenges are huge, but that they nonetheless have the solution.

Budget Basics

News accounts of state budgetary matters largely reflect what reporters are told by officials and elected leaders and information found in government news releases and documents. If you ask ordinary people what is meant when it is said that the *federal* government is running a “deficit,” while few folks could give you specifics, a typical answer would be that the government is spending more than it is taking in. If you asked about a “surplus,” you would probably get a reverse answer, i.e., the government is taking in more than it is spending. Surpluses and deficits are mirror opposites in common parlance. A “balanced” budget is a knife-edge position between surplus and deficit; the government is taking in what it is spending, no more and no less.

If you further asked what is meant by the national debt, you would likely get an answer that it is what the government owes. Note the distinction between deficit (or surplus) and debt. The word deficit (or surplus) involves *flows* over a time period, i.e., income flowing in and expenditure flowing out. Governments typically have a set time period for budgeting. At the federal level, it is a year – not the calendar year – but the fiscal year starting October 1 of each calendar year. California also has a fiscal year, although its fiscal year begins on July 1 of each calendar year.

Debt, in contrast, doesn’t have a time duration. It is rather a snapshot *at a moment in time*. You can ask how much was owed at, say, the beginning of the fiscal year (July 1 for California) and how much was owed at the end (the next June 30). So, there is a clear distinction between debt and deficit. The former is a stock and the latter is a flow. If you want to ask about the debt, you thus need to specify a particular *date*, e.g., June 30, 2020. If you want to ask about the state deficit (or surplus), you need to specify a particular *time interval*, e.g., the fiscal year 2019-20.

The use of a fiscal year (twelve months) might seem arbitrary. Why not, say, use fifteen months or eight months? Why gear budgeting to the length of time the Earth orbits once around the

Sun? However, there is a logic to utilizing a twelve-month period. Human activity traditionally has focused on a year, well before the movement of the Earth around the Sun - and the tilt in the Earth's axis that gives rise to the seasons - were understood. People go to ski resorts in winter and beaches in summer. They do their Christmas shopping in November-December, thus raising sales tax revenue in that interval. Their income taxes are (normally) due in April, thus increasing government revenue from that source in that month. In any twelve-month period, all of these activities are captured just once.

State and local governments typically have different funds or accounts for different purposes. The General Fund is effectively the state's day-to-day spending account from which routine expenditures occur. But the legislature, in its wisdom, has created numerous "special" funds outside the General Fund to accomplish various purposes. Thus, the Graphic Design License Plate Account, which obtains its revenue from fees motor vehicle owners pay for designer license plates, supports arts education and local arts programming. The California Beverage Container Recycling Fund receives fees consumers pay when they buy products in cans and bottles which are used for recycling payments. There are hundreds of such funds, but the biggest and most recognizable ones collect gasoline and other motor vehicle-related taxes and are used for roads and other transportation purposes.

The various funds, including the General Fund, are not supposed to have negative balances - just as your checking account is not supposed to be overdrawn. So, there will be a reserve of cash in the funds at the beginning of the fiscal year and at the end. If the balance falls during the year so there is less money at the end of the year compared with the beginning, the fund must have run a deficit - since more was spent during the year than was received. If the balance rises over the course of the year, the fund must have run a surplus because more was received than spent. This simple idea shows the relationship between stocks and flows in the government accounts.

If you think of state government as a household, you can imagine it having a checking account for its daily activities, savings accounts - where money is put aside for a "rainy day" - and some special accounts for particular purposes. To know how much the state had in reserve on a particular date for some future rainy day, you would sum up the balance in the General Fund and the various related saving accounts. If the *sum total* of the savings accounts and of the balance in the General Fund fell during a fiscal year, there was a deficit that year. If the *sum total* rose, there was a surplus during that year.

Note, however, that at any point in time there is yet more cash in the special funds. The state can handle a situation in which its cash - maybe on a seasonal basis - in the General Fund and even its various savings funds is depleted. It could, in such circumstance, engage in "internal" borrowing, effectively putting IOUs into its special funds and using that cash to pay for General Fund expenditures.

Of course, if it fills up the special funds with IOUs, they cannot pay for the specialized activities they were designed to support. The state must therefore pay off those IOUs relatively quickly. If internal borrowing is insufficient, the state can go into external financial markets and engage in short-term borrowing. It does so by issuing short-term (less than one year) interest-bearing securities known as Revenue Anticipation Notes (RANs). In rare cases, the state – if it has insufficient funds at the end of the year – can issue Revenue Anticipation Warrants (RAWs) which cross from one fiscal year to the next.⁵ And if the state exhausts even that option, it has – in even rarer circumstances – given its creditors IOUs known as Registered Warrants, a kind of involuntary loan by those creditors to the state.⁶

Because the state has a General Fund and numerous special funds, there are sometimes unclear references in news accounts to “the” budget. Sometimes the reference is to the General Fund alone. Sometimes the reference is to the combination of the General Fund and the special funds. However, when surpluses and deficits are discussed in the news media, the references are almost always to the General Fund alone. In what follows in this chapter, we confine ourselves to the General Fund and its associated reserve accounts.

A Brief History

In the late 1990s under then-Governor Gray Davis, California was experiencing a boom period associated with the growth of the dot-com industry. In particular, as dot-com stock values rose rapidly, high-end taxpayers experienced capital gains and paid income taxes to the state based on those gains. Revenue poured into the state treasury and the legislature increased spending more or less in step. But when the dot-com boom turned into a bust in 2001, the revenue disappeared quickly, but reversing the new spending proved to be hard and painful. A major budget crisis thus erupted. In the end, Gray Davis was removed by voters in 2003 in a recall election and was replaced by movie personality Arnold Schwarzenegger.

Davis, before he was ejected by voters from office, had come up with a plan to float bonds (borrow) to resolve the crisis. The problem with the Davis plan was that the state constitution bans long-term borrowing for funding day-to-day activities. Such borrowing is supposed to be reserved for long-term infrastructure projects which will provide long-term benefits. The legally-shaky Davis plan would probably have failed once legal challenges were mounted, as certainly would have happened. Schwarzenegger thus took the Davis plan, enlarged it, and then went to voters to approve a constitutional exception on a one-time basis. He promised that if

⁵RANs are issued by the state treasurer, as are longer-term securities. RAWs are issued by the state controller.

⁶Some might argue that if the state can't pay all its bills on time, it is “bankrupt.” However, there is no legal provision allowing a state to declare bankruptcy the way a private corporation or individual can. There *is* provision in bankruptcy law for local governments to declare bankruptcy. But the bankruptcy process is painful and costly and is something localities try to avoid. Perhaps the most famous local bankruptcy in California was that of Orange County in 1994. Other notable local bankruptcies in California were Vallejo (2010), San Bernardino (2012) and Stockton (2012).

the state was allowed this single transgression from fiscal prudence, it would thereafter “throw away the credit card” and avoid future budgetary sins.

However, in his second term, Governor Schwarzenegger found himself in much the same situation that confronted Davis at the time of the recall. For Schwarzenegger, it wasn’t dot-com stock values bursting that caused his problem. Rather, it was a housing bubble that burst combined with flaky mortgages. The housing bust nationally triggered the Great Recession of 2008, but the housing bubble and the flaky mortgages had been disproportionately concentrated in California.

The state staggered along in a continual budget crisis until the 2010 election. At that point, former Governor Jerry Brown, who had left his gubernatorial office after two terms in 1983, successfully ran for a third (and later a fourth) term promising to fix the budget crisis. Luckily for Brown, voters in 2010 had forgotten or didn’t know that he had left the governorship back in 1983 in the midst of a budget crisis.

Brown took office in early January 2011 during the recovery from the Great Recession, a recovery which itself helped address the state’s revenue needs. But he also persuaded voters to enact a “temporary” income tax increase at the top bracket and a small sales tax increase. He later persuaded voters to deposit some state revenue into a “rainy day” account which had been created under Schwarzenegger, but which Schwarzenegger was never able to fund. Brown positioned himself as the adult in the room, constraining legislative incentives to spend and building up his rainy day fund and other state savings accounts.

Brown’s successor, Gavin Newsom – the former lieutenant governor and former mayor of San Francisco – thus took office in January 2019 at a time when the finances of the state were much improved and with significant reserves on hand should the economy again slide. Newsom’s first budget for fiscal 2019-20 (July 1, 2019 to June 30, 2020) was enacted in June 2019 during a period of prosperity. And while there were some indicators of a future slowdown of growth, Newsom’s first budget was basically built on assumptions of ongoing prosperity.⁷

The coronavirus crisis was not on the horizon when that the 2019-20 budget was passed in June 2019. That crisis was what folks in the financial world sometimes call a “Black Swan event,” something highly unusual that economic models are completely unsuited for predicting. After all, the last viral pandemic on the scale of the 2020 coronavirus outbreak occurred in 1918, more than a century earlier. So, Newsom’s initial proposal for the 2020-21 budget made in January 2020 was not predicated on a pandemic-induced economic downturn.

⁷Daniel J.B. Mitchell, “Time for an Old Guy; Time for a Young Guy: California Fiscal Affairs Shift from Brown to Newsom,” *California Policy Options 2020* (UCLA Luskin of Public Affairs, 2020), Chapter 1. Available at <https://archive.org/details/budget201920>.

A Look at the Numbers

With both our budget basics in mind and our brief budgetary history, we will first take a look at the evolution of the 2020-21 budget – to this writing – through numerical tables. Our primary focus is macro, the overall flows of California state spending and revenues. We will then go back and trace the background to the 2020-21 budget, i.e., what was happening in the state as that budget was first developed, then readjusted for the crisis, and then enacted.

As will be seen when we look at the budget background, the first eight months of previous 2019-20 fiscal year were not especially budget-oriented. In Good Times, other issues come to the fore, and folks don't concentrate on fiscal affairs. Once the coronavirus crisis overwhelmed the state, with its impact on the state economy and therefore on the budget, attention became heavily focused on the crisis and many other issues of policy and politics were pushed aside.

Let's first look at what happened to the 2019-20 budget – the first budget proposed by Governor Newsom when he took office in January 2019 – as fiscal year 2019-20 progressed from boom to catastrophe. As noted in last year's chapter on the state budget, Newsom's first budget was in fact in deficit by something over a billion dollars, using the estimates available at the time of its passage.⁸ In the larger scheme of things, that small deficit (small relative to the overall General Fund budget) would not have been a problem, given the size of reserves that the state had accumulated under former Governor Jerry Brown. Up until that point, the state's economy was booming and might well have been seen to be on a path to generate more revenue by the end of the fiscal year than had been anticipated at the beginning. In any case, with some reasonable frugality, the governor was likely in a position to keep reserves more or less constant.

However, as Table 1 shows, total projected end-of-year reserves for 2019-20, after jumping up in January, finished about a billion dollars *lower* than had been projected when the 2019-20 budget was enacted.⁹ And that result included a significant infusion of funds provided by the U.S. Congress under the federal CARES Act to offset the coronavirus crisis. Absent that infusion, reserves would have dropped dramatically if spending had taken its actual path. Although state revenue – even with the infusion – fell, the scope for cutting spending was limited within a fiscal year that was almost three fourths finished when the crisis hit. And the coronavirus crisis put new spending demands on the state for health mitigation. Total reserves thus dropped by over \$6 billion in 2019-20 as can be seen on Table 3.¹⁰

Table 2 shows the evolution of the 2020-21 budget, Newsom's second. As initially proposed in January 2020, it would have ramped up spending relative to a workload (no change in policy)

⁸Op. cit., p. 39.

⁹Table 1 shows that initially end-of-fiscal year reserves were projected to be \$20.589 billion but actually ended with at total of \$19.512 billion.

¹⁰Table 3 shows that using updated estimates available in June 2020, total reserves in 2019-20 dropped from \$26.148 billion to \$19.512 billion, a drop or deficit of \$6.636 billion.

projection of the Legislative Analyst's Office (LAO). By May, however, with the coronavirus crisis underway, proposed spending for the coming fiscal year was cut dramatically.

What was enacted in June was pretty close to the May Revise in total but not in detail. Even so, the budget for 2020-21 contains a projected deficit of around \$5 billion. (See Table 3.) Thus, from the time of initial coronavirus outbreak to the projected end of 2020-21, something like a pulling down of reserves by about \$11 billion was projected to occur, still leaving over \$14 billion in official reserves. So, at that rate, the state could likely go another year and a half or two without completely depleting its official reserves.

If more federal aid came along – something still unclear at this writing – state spending would be enhanced by automatic formulas contained within the enacted budget. If some aid were received, but less funding than hoped for, the added increment would be proportionately reduced. Whether the net effect of federal aid would end up changing the total drawing down of reserves is unclear. There are too many unknowns about the pace of the economy and how the legislature and governor will behave during 2020-21.

It is important to note that the legislature always has the option to change the budget in mid-course, depending on the economic and political outlook. Such a mid-course correction did occur in the wake of the Great Recession of 2008, for example. It is also worth noting that the June 2020 budget for 2020-21 was signed *before* income tax receipts for July could be known for sure. (The mid-April due date for the 2019 tax year had been delayed until mid-July due to the coronavirus crisis.)

An important thing to keep in mind when thinking about the short-term outlook for the state budget is the presence of the funds and accounts outside the General Fund, to which we referred in the previous section. It is possible, as we noted, to borrow internally from those outside funds. Chart 1 tracks unused borrowable resources – essentially remaining internal funds legally available as sources of such borrowing during fiscal 2019-20 and in the prior year.

The available resources for the two years (2018-19 and 2019-20) more or less move together (due to regular seasonal mismatches between tax receipts and spending) until March 2020. Thereafter, 2019-20 resources fell below the prior year and would have been substantially lower were it not for the receipt of \$9.53 billion under the federal CARES Act to help with coronavirus-related expenses. The state finished fiscal year 2019-20 with over \$37 billion in unused borrowable resources which included the various reserves associated with the General Fund, but also special funds available outside the General Fund. And that end-of-year balance remained despite the fact that state income taxes that should have been received in April 2020 had been deferred by law to mid-July, i.e., beyond the 2019-20 fiscal year.

With that numerical fiscal tour completed, let's examine how the budget for 2020-21 – at least as the budget stands at this writing - fell into place. The enacting of the 2019-20 budget was certainly a newsworthy event briefly. But it was a no-drama affair due to the prosperity then

prevailing and not initially a highly challenging concern as perceived by the public. That lack of drama meant that other issues were much more in the headlines – until suddenly they weren't.

Summertime 2019, and the Living Was (Relatively) Easy

*There's a time each year, That we always hold dear
Good old summertime, With the birds and the trees'es
And sweet scented breezes, Good old summertime
When your day's work is over, Then you are in clover
And life is one beautiful rhyme, No trouble annoying
Each one is enjoying, The good old summertime*

"In the Good Old Summertime" (Song, 1902)¹¹

When the 2019-20 budget year got underway, there was a general calm compared with what was to come later. Of course, the political atmosphere always has conflict. There were issues of publicly-financed charter schools vs. conventional public schools. Under former-Governor Jerry Brown, legislative attempts to restrict the growth of charters generally failed. Governor Newsom was less favorable to charters, and a measure restricting charter expansion was eventually passed. There was conflict with the Trump administration concerning the high-speed rail project, a legacy of Jerry Brown about which Governor Newsom had never been an enthusiast. Newsom was willing to go ahead with a truncated version of the project but was not keen to give back federal funding that had already been received on the basis of the Brown version, leading to a fight with the Trump administration.

More pointedly in terms of conflicts with the Trump administration, the state enacted a law that seemingly would bump President Trump off the 2020 state primary ballot if he didn't produce his past tax returns. Brown had vetoed this dubiously-legal proposal during his term in office. Newsom signed it. (Not surprisingly, after litigation, Newsom's version was overturned.) The state also continued its various legal contests with the Trump administration over such matters as auto emissions and federal attempts to end DACA – the Obama-era program giving temporary status to "Dreamers."¹²

On the other hand, when it came to emergency federal aid for state disasters – especially wildfires – the federal government always seemed to come through, and Newsom would

¹¹George Evans and Ren Shields. https://www.youtube.com/watch?v=ccjSC_19dP8.

¹²Dreamers are individuals brought into the U.S. by their parents as children without authorization.

express gratitude to the president or others in the Trump administration.¹³ Newsom was also willing to take advantage of a Trump administration federal tax break for private investing in so-called "Opportunity Zones," designated distressed areas that were intended to attract outside investment.¹⁴ However, the legislature would not go along with a bill for implementation.

Unemployment Compensation, Housing, and the Safety Net

The finances of California unemployment insurance program had never quite recovered from the Great Recession of 2008-09, but until the coronavirus crisis the state was experiencing low unemployment, pushing the issue into the future.¹⁵ Problems of public pension finance persisted, despite changes in the various pension programs enacted under Jerry Brown, but a booming stock market had dampened immediate concerns. Brown had not made new housing construction a major issue, but Newsom generally supported moves to prevent local governments from impeding new construction, although (as of this writing) he had little success pushing such policies through the legislature.

All of these matters acquired new elements after the coronavirus crisis developed, with its impact on the economy. The unemployment insurance program became a major element of federal response. Drops in the stock market as the recession developed made pension finance more difficult (although at this writing the market has recovered). The housing markets, as well as the commercial real estate and development markets, were thrown into turmoil. In the summer of 2019, the legislature approved a bill somewhat limiting rent increases in response to concerns about unaffordable housing. Once the coronavirus crisis arose, the issue became less one of future rent hikes and more a focus on preventing evictions for nonpayment of current rent.

Recycling

Before March 2020, there were California issues with origins in Asia, but nothing like what was to come with the coronavirus. The state's recycling efforts, part of its general tilt toward environmentalism, depended in part on exporting its plastic, paper, and glass waste to China for reprocessing. But the China market for such waste was drying up, reducing the U.S. price of

¹³Newsom's willingness to say thank you for federal aid extended later to the coronavirus period. In fact, a short thank-you from Newsom to President Trump was aired at the Republican National convention in August 2020. See <https://www.youtube.com/watch?v=KGfBALys5n0>.

¹⁴The Opportunity Zone concept is a variant of earlier "Enterprise Zones," which offered tax breaks to investors. The record for such zones has generally not been positive. However, even if the concept is flawed, there could be reasons for California not to miss out on a potential federal subsidy for local investors.

¹⁵Unemployment insurance is a federal-state program that dates back to the Great Depression of the 1930s. Each state, however, is responsible for collecting sufficient payroll taxes from employers to finance its component of the program and the program is administered at the state level.

waste, and leading to reductions in capacity by private state recyclers. Even with a state subsidy, the waste was ending up in landfills rather than being processed for reuse.

The future propensity of the Trump administration to blame the coronavirus on China – once it hit the US - complicated matters related to trade with that country in ways not foreseen in summer 2019. Apart from California's direct trade with China, the state's ports greatly depend on international commerce. And the volume of trade was drastically reduced by the coronavirus crisis.

Criminal Justice Reform

The upcoming 2020 election was already affecting the political scene in 2019. The legislature had enacted a new system to replace cash bail, but private bail agencies had put a referendum on the November 2020 ballot that effectively blocked the law from taking immediate effect.¹⁶ Nonetheless, the 2019-20 budget had some funding for pilot programs using the no-bail new system. Presumably, if the new system "worked," the success could be cited by proponents of the no-bail approach in the 2020 ballot campaign. Sacramento County was to be one of the test sites. Protests over criminal justice matters in spring 2020 would later highlight such issues as cash bail. Similarly, Governor Newsom signed a law regulating use of force by police in summer 2019, an issue that became a major political issue after the spring 2020 protests related to the killing of George Floyd in Minneapolis by police.

Prop 13 of 1978

Another legislative effort aimed at the November 2020 election was a proposed state constitutional amendment that would lower the two-thirds vote requirement for local bonds and parcel taxes. Ultimately, that effort – which would have modified restrictions of Proposition 13, California's 1978 property tax limitation – failed. But the initiative process (as opposed to the legislative process) did succeed in putting the so-called "split-roll" system of property tax assessment on the November 2020 ballot. Under the split roll, commercial properties would receive separate treatment from residential properties, raising significant revenues for local government.¹⁷

The long shadow of Prop 13 showed up in another controversy, this one a requirement from the legislature that an ethnic studies course be incorporated into the high school curriculum. If

¹⁶The opposition is not confined to bail agencies. Some civil rights proponents have concerns about the algorithms that might be used to determine the risk of failure to show up for trial or reoffending.

¹⁷Proponents of the split-roll approach had gotten a version of their proposal qualified for the ballot. But after testing that version against public opinion, they decided that a more marketable plan was needed, one that had less impact on small business and other features.

it seems odd to you that the legislature would be in the business of detailed curriculum planning for local schools, the phenomenon might seem less strange if we go back to Prop 13.

Back in 1978 when Prop 13 was enacted, the state ended up as a major funder of the K-14 educational system because Prop 13 had drastically cut local property taxes. Up until then, local property tax revenue was a very important source of school finance. Prop 13 set in motion a political chain of events. First, with voters in an anti-tax mood, Prop 4 on the ballot the following year was enacted. It placed a cap on state revenue based on population growth and inflation. Prop 4 required refunds of excess revenue back to taxpayers, something that didn't occur until the cap was hit in late 1980s. Angered by refunds that might have otherwise gone to schools, the educational establishment put Prop 98 on the ballot in 1988. Prop 98 required minimum funding by the state for K-14 and gutted the Prop 4 cap. In doing so, Prop 98 cemented the state's responsibility for school funding.

There is the old adage that whoever pays the piper calls the tune. With Prop 13's indirect push of funding responsibility for K-14 up to Sacramento, the idea of the legislature involving itself in local curriculum matters became less strange. When the committee tasked with coming up with the proposed ethnic studies course unveiled its agenda, there was controversy over a variety of elements in the plan including complaints about language – unfamiliar terminology such as “cisheteropatriarchy” was cited – and there were allegations of anti-Semitism. In addition, various excluded groups wanted their histories to be included in the proposed course. The issue was kicked to the state Superintendent of Education who promised “edits” in a future revision which appeared in mid-summer 2020, still with controversy.¹⁸

Unforeseen events in the future – the recession related to the coronavirus lockdown and its negative impact on revenue – would intensify controversy over the split roll. Similarly, the spring protests over policing and racism would focus more attention on such matters as ethnic studies. As in other topics of controversy, the future path of events was not foreseen.

Gig Workers

Another subject of debate was AB 5, a proposal that would codify into law a state Supreme Court decision regarding “gig” workers such as Uber and Lyft drivers. Under AB 5, such workers would be classified under state law as regular employees, not “independent contractors” and would be entitled to protections and benefits that such employees have. During the summer of 2019, with the Democratic presidential primary in full swing, candidates such as Elizabeth Warren and Bernie Sanders supported AB 5.

¹⁸A bill was passed and signed by the governor extending the deadline for curriculum development. See also Nina Agrawal and Howard Blume, “‘Herstory’ is out as California revamps K-12 ethnic studies course guide,” *Los Angeles Times*, August 1, 2020. Available at <https://www.latimes.com/california/story/2020-08-01/california-ethnic-studies-model-curriculum-released>.

Ultimately, when it passed, key gig employers put an initiative on the November 2020 ballot that would effectively void AB 5.¹⁹ They created a huge war chest for the coming campaign. They promised to spend anywhere from \$60 million to \$100 million on the ballot campaign to support their initiative. And they filed a legal challenge to AB 5 itself, arguing it was unconstitutional. As of this writing, the gig employers' litigation challenge had failed at the lower court level and is on appeal.

The issue of gig workers was to be highlighted when the coronavirus-induced recession caused mass unemployment, and the problem of gig workers not normally being eligible for unemployment compensation became apparent. As contractors, neither the employer nor the workers had paid into the system on their behalf.²⁰ Thus, the unemployment insurance system had no records of prior earnings history as typically exist for regular employees, complicating state implementation of a special federal coronavirus-related program for the self-employed.

Vaccine

Governor Newsom was repeatedly criticized during his first year in office for seeming to cater to anti-vaccine groups. A bill to close loopholes in school vaccination requirements was working through the legislature, engendering opposition from anti-vaxxers. It was somewhat watered down at the governor's insistence. Newsom ultimately signed the modified bill in early September 2019, angering anti-vaxxers who thought he might veto it.²¹

The issue of public health was much more elevated later in fiscal 2019-20 by the coronavirus crisis, with the governor becoming the advocate of strict lockdown rules and personal behaviors such as mask-wearing and the like. At this writing, no vaccine for the coronavirus has been developed, although various attempts to produce one are underway. Would the governor – who in other aspects of public health during the crisis constantly cajoled Californians to avoid anything that might spread the virus – become an advocate of use of a vaccine, were it to be developed? That question remained open, given his past record.

Paying College Athletes

The issue of paying college athletes – who are supposed to be amateurs, not professionals – has been a matter of debate and litigation for years. In response, the legislature enacted a bill that

¹⁹The gig companies could have filed a simple referendum on AB 5 under which voters would have voted yes or no as to whether the law should go into effect. In filing a separate initiative, they included certain benefits for gig workers so that it could be argued that they were not simply denying benefits to their contractors.

²⁰The federal government created special Pandemic Unemployment Assistance (PUA) benefits for contractors as a supplement to the unemployment insurance system.

²¹Anti-vaxxers threatened they would put a referendum on the ballot to block the new law but never obtained sufficient signatures.

allowed student-athletes the right to profit from their names, likenesses, and images. The NCAA opposed the bill, but ultimately the governor signed it, and the NCAA reversed and went along with the bill's intent. Once the coronavirus crisis developed, the issue for college athletes was less one of pay and instead whether they could play at all, and if so, when and under what restrictions and precautions.

Homelessness

Homelessness was becoming a political issue at the local level in California, with encampments and tent colonies forming, especially in San Francisco and Los Angeles. These encampments were reminiscent of the "Hoovervilles" of the Great Depression of 1930s, yet they were developing at a time of low unemployment and general prosperity. And they were highly visible.

President Trump pointed to the encampment issue and sometimes threatened that he would somehow solve it if local mayors couldn't. In response, local officials and the governor turned around and invited the Trump administration to provide federal dollars for support of homeless/housing programs. Little that was productive resulted from the political back and forth until the later coronavirus crisis. At that point, federal monies in support of coronavirus-related expenses did become available and could be used for temporarily housing the homeless. Efforts to provide housing for homeless persons could be presented as a larger matter of public health.

The Fall

*"The falling leaves
Drift by the window
The autumn leaves
Of red and gold"*

Autumn Leaves (Song, 1945)²²

As autumn got underway, the general outlook for the California economy seemed reasonably bright. Nobody was especially concerned with, or focused on, the outlook for the state budget. The UCLA Anderson Forecast projected some slowdown in the rate of state economic growth

²²Joseph Kosma and Jacques Prévert in French, Johnny Mercer in English.
<https://www.youtube.com/watch?v=ZEMCeymW1Ow>.

and pointed to some trouble spots, but nothing that pointed to the kind of economic catastrophe that the coronavirus would bring.

As Table 4 shows, there was a UCLA prediction in September 2019 that the unemployment rate in 2020 and in 2021 would average 4.6%, perhaps a bit above the level of 2019. By December, the forecast was revised down to 4.3% in 2020 and 4.6% in 2021. It was the kind of forecast that would suggest that with some caution, there would not be major state budgetary strains to come.

Tax revenue could be expected to arrive at more or less anticipated levels in such an economy. Nothing in the outlook suggested a recession in the immediate future. Commenting on the economy, the governor talked about a beginning of a descent, using the airplane analogy.²³ But there is a big difference between an airplane beginning to descend and sudden turbulence leading to a sharp drop in altitude.

An opinion poll taken by the Public Policy Institute of California suggested that the approval levels of the governor and legislature were stable at something under 50% - with many "don't knows" rather than strong disapprovals on the other side by one measure. Stronger ratings for the governor were indicated by another UC-Berkeley poll. In short, there was a political and economic calm – or at least stability - in Sacramento.²⁴

The general public was probably more focused on the Democratic Party's ongoing campaign for the presidential nomination than on anything going on at the state level. That contest was narrowing down to a race between former vice-president Joe Biden and Vermont senator Bernie Sanders. No actual primaries or caucuses had yet taken place. But California, which had moved its primary to be earlier than in 2016, appeared to have the potential to tilt the contest one way or another.

Higher Education

Although Governor Newsom had shown ambivalence about Jerry Brown's legacy high-speed rail project, he hadn't said much about another Brown legacy that didn't involve concrete and steel. Brown had long been convinced that public higher education was too expensive, and his remedy of choice was online education. With Brown as an *ex officio* regent, the University of California had created some online courses to appease the governor and as part of earlier

²³Sophia Bollag, "California boom is ending, Gavin Newsom warns as 2020 budget writing begins," *Capitol Alert of Sacramento Bee*, October 3, 2019. Available at <https://www.sacbee.com/news/politics-government/capitol-alert/article235759857.html>.

²⁴Berkeley IGS Poll, Release #2019-09 of September 30, 2019. Available at <https://escholarship.org/content/qt2ns281d1/qt2ns281d1.pdf>. Public Policy Institute of California, *Californians & Their Government*, September 2019. Available at <https://www.ppic.org/wp-content/uploads/ppic-statewide-survey-californians-and-their-government-september-2019.pdf>. UCLA Anderson Forecast, September 2019 and December 2019. Publications available from Forecast for subscribers.

budget deals with him. Eventually, Brown's interest in online higher education led to the creation of an online-only community college, "Calbright College," which was slated to accept its first students in October 2019 (and did).

There remained controversy about Calbright. The California Federation of Teachers (CFT), which represents instructors in the community college system, feared job displacement, and the union threatened a lawsuit. And it remained unclear, based on previous experiments with online higher education, whether there really is a cost saving. However, when the coronavirus crisis came along later in the fiscal year and pushed virtually all higher education into the online mode, Calbright College suddenly looked more like a model and less as an experiment. Regardless of cost, instruction went online. Budget issues were not the driver; the virus was.

Although CFT was not happy with Calbright, it did achieve another goal. The governor signed off on a bill that expanded aid to community college students who might experience a financial setback. There had been such funds available in the past, but they had come from private fundraising.

Other higher ed issues were percolating in the fall that later became more pressing thanks to the coronavirus and the spring protests. One was whether the SAT and ACT would continue to be a part of the admissions process at the University of California.²⁵ Another was whether there might be moves to put a repeal of Proposition 209 – the state's voter-approved ban on affirmative action – on the ballot. Ultimately, the legislature did put repeal of Prop 209 on the ballot for November 2020.

Housing and Transportation

Affordable housing remained a key political issue. The governor wasn't willing to sign a bill adding more spending on affordable housing projects. But he signed a bill to promote "granny flats," i.e., secondary structures on single-family lots that could accommodate a small household. Such structures involved no state budgetary expenditure.

Another bill signed by the governor sought to bar landlords from discriminating against renters who used housing vouchers as a rent supplement. Various programs offer vouchers to low-income tenants that can be used to pay higher rents than they might otherwise be able to

²⁵A report by the University of California Academic Senate for the Regents found that the use of the SAT and ACT at UC in conjunction with other admissions criteria "protects the admission eligibility of the very populations about whom there is concern, and ensures that under-represented, low-income, historically minoritized, and other similar populations are eligible for admission at UC."

<https://regents.universityofcalifornia.edu/regmeet/may20/b4attach2.pdf> (p. 2) and

<https://senate.universityofcalifornia.edu/files/underreview/sttf-report.pdf>. However, the Regents ended use of the tests for undergraduate admissions. To the extent that the tests remained in use for certain purposes at UC, a court decision in late summer blocked their continuance.

afford. When the coronavirus crisis developed, the issue of paying rents shifted from vouchers and affordability to the question of paying rent at all in the face of soaring unemployment.

In the transportation area, Newsom signed an executive order shifting more state gas tax money to go to public transit projects rather than to roads. This action set off complaints, particularly from (mainly Republican-represented) rural areas. The coronavirus crisis was to raise a new set of issues: paying for public transit when ridership – and thus passenger fares – dramatically declined because of the drop in general economic activity, stay-at-home rules, and public reluctance to use transit systems that were not designed for social distancing. Transit agencies had to deal not only with reduced fare revenue but also added expenses for intensive cleaning and disinfecting of trains and buses.

Jerry, Not Jerry

While Governor Newsom liked to portray himself as a Jerry Brown-like figure in terms of being the adult in the room protecting the state budget from a potentially spendthrift legislature, he also wanted to differentiate himself from his predecessor. Newsom signed off on laws that Brown had vetoed in earlier iterations. He signed legislation dealing with gun control, offering abortion pills in college clinics, unionizing childcare workers, adjusting the timing of the school day, limiting charter schools, and other matters.

But in one key area Newsom continued a policy Brown had started. Part of Brown's budgetary actions to deal with the fiscal dilemma he inherited in the aftermath of the Great Recession was the abolition of local redevelopment agencies. These agencies coordinated local redevelopment projects and used the increment in property taxes when higher assessments resulted from new development.

Brown saw this increment financing as a diversion of the property tax away from K-14 which the state then had to backfill under Prop 98's funding requirements. He set in motion a process that ended with the dissolution of the redevelopment agencies.²⁶ Newsom vetoed a bill that would have reestablished local redevelopment, albeit in a much more restricted form than had existed before Brown's action.

Although redevelopment construction was largely carried out in partnership with the private sector, it can involve local public funds beyond the future increment in property tax receipts. Once the coronavirus crisis hit, local governments that are typically heavily dependent on sales taxes and tourism-related taxes suddenly saw a dramatic erosion of their tax bases. Thus, even

²⁶Brown proposed an abolition of redevelopment agencies, but a compromise deal effectively took some of their revenue instead. The agencies went to court to challenge the loss of revenue but inadvertently triggered a court decision that abolished them.

if the governor had not vetoed the bill, not much would have come from it, at least in the near term.

The climb out of the Great Recession of 2008 meant that state workers had been limited in terms of general pay increases. Newsom inherited the task of negotiating new union contracts with various state employee groups whose previous contracts had been signed under Brown. In some categories, pay had fallen sufficiently below market so that recruitment was becoming a problem.

Newsom's administration generally followed a policy of trying to focus negotiated pay raises on such cases of labor shortage. But even signed contracts could not insulate the workforce from the later coronavirus crisis. At that point, the issue became pay reductions, either by salary cuts or through reducing work time.

While Newsom had earlier trimmed back a Jerry Brown proposal for a twin-tunnel water project to a one-tunnel project, in the case another environment-related program, he defended Brown's cap-and-trade program from a lawsuit by the Trump administration. Under cap-and-trade, a diminishing number of greenhouse gas emission permits are released and sold. These permits both provide revenue to the state and put a declining ceiling on allowed emissions. Under Brown, the California program had been connected to a larger program with other states and a Canadian province, Quebec. The Trump administration challenged in court the right of a state to sign an international agreement, arguing that such deals are appropriate only at the federal level. At this writing, the challenge to California's cap-and-trade program has been unsuccessful in blocking its operation.²⁷

Power to the People, Except When It's Not

The major electricity and gas utility in northern California, PG&E, had a history of safety problems that ultimately led to its operating in bankruptcy. First, there was a major gas line explosion that destroyed a neighborhood and that was ultimately determined to involve faulty maintenance. Then it was electrical transmission lines that ignited wildfires. To avoid further liability, PG&E adopted a policy of shutting off power when strong winds were forecast for areas in which there was wildfire danger.

Apart from the cost and inconvenience to customers of power shut-offs, there were costs imposed on local governments which had to deal with nonworking traffic lights and continued provision of public services in the absence of electricity. The 2019-20 budget provided for \$75 million in aid for localities affected. But the governor also became involved in trying to find a way forward for PG&E. Should it be reconstituted in some form as a private utility? If so, might

²⁷The Trump administration suffered a defeat in one court on its challenge in March 2020 and another in July 2020.

some outside group buy it? Or should it be converted into a public entity or a co-op of some type?

Whatever the solution regarding ownership, someone would have to provide funding for a major infrastructure upgrade to avoid future mishaps and safety lapses. Newsom appointed his cabinet secretary, Ana Matosantos, as the state's "energy czar" to oversee the PG&E affair and summoned the CEO of PG&E for a harsh interview. Somewhat forgotten was PG&E's past support in happier times for Newsom's various political campaigns.

Not surprisingly, dealing with PG&E was a major issue for the area in which it operated. Eventually, a \$13.5 billion settlement was reached with lawyers representing wildfire victims as part of a plan to emerge from bankruptcy, a deal which the governor rejected. The bankruptcy court approved the settlement despite the governor's objections. But given political realities, negotiations with the governor were not concluded until the height of the coronavirus crisis in late March 2020. Under the deal, the state had an option to buy the utility. But in July 2020, it emerged from bankruptcy as a private company, putting aside a fund to pay those injured in wildfires. In addition, PG&E pleaded guilty to involuntary manslaughter and was fined.

The wildfires themselves were a big issue wherever they occurred and were a source of friction between California and the Trump administration. President Trump from time to time would threaten to cut off FEMA aid to California for wildfire damage on the grounds that the state wasn't properly managing its forests. But as with other issues, once the coronavirus crisis arrived, the wildfire challenge tended to be put aside even though the danger of fires would arrive (and did arrive) in the usual seasonal pattern.

Sanctuary

Under Jerry Brown, when the Trump administration attacked undocumented individuals, including DACA recipients ("Dreamers"), California reacted in two ways. There were lawsuits by California targeting Trump policies. And the legislature moved to protect undocumented individuals in various ways including barring cooperation between police agencies and federal immigration enforcement agencies. Brown resisted terming the legislation a "sanctuary" law, arguing that the word conjured up medieval churches.²⁸ Whether anyone except Brown – with his one-time Jesuit training – actually made that theological connection is an open question. In the end, however, Brown saw the term as potentially inflammatory. Nonetheless, the terminology stuck.

While California was generally the initiator of lawsuits in this area, in the case of the state's "Sanctuary Law," the Trump administration sued California over its enforcement. In the fall of 2019, the administration asked the U.S. Supreme Court to invalidate the law. The Court didn't

²⁸See Brown's "Meet the Press" interview of August 6, 2017: <https://www.youtube.com/watch?v=LxLLTob29U>.

rule until the following June – and then, in the midst of the coronavirus crisis – it ruled for the state. By that time, however, a more pressing problem was the exclusion of undocumented individuals from the various federal programs aimed at alleviating the coronavirus-induced economic crisis.²⁹

Auto Emissions

The Trump administration sought to roll back auto emission standards. But some major car manufacturers decided to stay with tougher California standards. Other car companies approved of the federal rollback. Newsom ordered state agencies not to buy new cars from those manufacturers that failed to meet California standards.

Once the coronavirus hit, with its impact on the state budget, it was unlikely that the state would go on a buying spree for new cars. Thus, the order was unlikely to change the political calculations of the various manufacturers. But the crisis also substantially curtailed driving, producing an improvement in air quality regardless of standards.

Universal Health Care

California was especially energetic in taking advantage of the Affordable Care Act (“Obamacare”). And Governor Newsom, while not promising a specific state plan when he ran for governor (such as single-payer), expressed the goal of universal coverage. When he was mayor of San Francisco, he oversaw the development of a citywide plan that was near-universal. Late in the fall of 2019, he established a commission to investigate alternative health plans that California might consider.

The later coronavirus crisis inherently highlighted gaps in the state’s health care system. It pushed the state toward developing *ad hoc* arrangements to cover those persons without insurance since anyone could become infected and anyone – once infected – could spread the virus to others. The coronavirus was indifferent to an individual’s health insurance coverage status. It just spread whenever enabled. Unfortunately, those people who lived in residences and were employed in workplaces with conditions that tend to enable infection were also those least likely to have health insurance.

The Fall Budget Outlook

Although the governor doesn’t have to produce a budget for the forthcoming year until early January, the Legislative Analyst’s Office (LAO) generally releases an evaluation of the fiscal

²⁹The legislature passed a bill in late August 2020 that would give certain tax credits to undocumented workers that were previously available to other workers. It is unknown at this writing whether the governor will sign it.

outlook in the previous November. The LAO assumes that no changes are enacted in spending policy or in tax policy and then projects a “workload” budget based on a forecast of economic conditions and program beneficiaries and activities. As Tables 1 and 2 show, the LAO projected somewhat higher reserves on workload assumptions at the end of the then-current 2019-20 year and significantly higher reserves in the forthcoming 2020-21 year. Such reserves could either be saved or somewhat depleted by changes in policy.

Basically, the LAO was saying to the governor and legislature that continued good economic performance, even in the face of some slowdown, could allow added spending. As noted earlier, Table 4 shows that the UCLA Anderson Forecast for 2020 released in December 2019 – and thus likely based on similar assumptions to those used by LAO – projected some slowing causing the California unemployment rate to rise slightly. (We are using the unemployment rate as a proxy for general economic conditions.) But there was no hint of anything more than a bit of deceleration.

Although the budget proposal for 2020-21 had yet to be released, the governor in late December let it be known that there would be added money in the January proposal for dealing with homelessness. Such leaking of bits of the forthcoming budget are traditional. They provide a preview of the public, test the legislative response, and heighten interest in the forthcoming budget proposal as a whole.

The key point is that in late fall of 2019, there was nothing foreseen that would have suggested a recession. Yes, the expansion since the Great Recession had gone on for an exceptionally long time. Maybe you could worry about rising housing prices as a warning of an eventual bubble inflating and bursting. Or maybe you could worry about the stock market in the same vein.

Maybe the seemingly endless imbalance in U.S. international trade and the resulting accumulation of dollars by China and other countries might someday become a problem. But these factors were all hypotheticals. They had also existed a year before, and for years before that, and nothing untoward had happened.

The first reports of a new respiratory illness in China did not appear until the end of December 2019. And even then, the initial reports did not suggest something that would translate into a drastic downward revision of the economic outlook, much less a major recession. After all, there had been other viral infections in the past including seasonal variants of the flu. None had led to much impact on the U.S. economy since 1918.

The Winter Comes

*All the leaves are brown, and the sky is gray
I've been for a walk on a winter's day
I'd be safe and warm if I was in L.A.
California dreamin' on such a winter's day.*

It's hard to look at what transpired when the winter began, and Newsom's second budget was unveiled without a sense of the impending crisis that no one then saw coming. The most notable thing about the governor's budget proposal was not its content but the way it was presented. The LAO had suggested that there was latitude in the budget outlook for expansion of new programs. But, as noted earlier, the governor had previously used the analogy of a plane landing to suggest that the moderation and prudence was needed. *"Next year's state budget won't be as flush as this year's,"* he had warned back in October.³¹

Presentation

If spending proposed for 2020-21 is compared with what was projected for 2019-20, as both were projected at the time of the January 2020 presentation, the increase was around two percent, roughly the rate of inflation. So, in real terms, there was essentially no change. It would seem there wouldn't be much to say about such a budget. But that wasn't the case, particularly for a governor who likes to reel off statistics and details, a talent which came later to the fore later during the onrushing coronavirus crisis.

Newsom had already broken with the Jerry Brown mold in presenting his first budget a year earlier. Brown typically put a few large cardboard charts on an easel and spoke for at most half an hour including questions from reporters. For details, he would then turn the podium over to his budget director. Newsom, back in January 2019, spoke for about an hour and a half using electronic charts. But in January 2020, after a warning that a long, governor-presented unveiling was about to occur, Newsom went on for close to three hours! Commentator Joe Mathews, watching this gubernatorial performance online, wrote, *"It went on so long that I wondered if I should call hostage negotiators or a SWAT team to free my journalistic friends who were stuck there."*³²

The governor has pointed out at times that as a child he was dyslexic. Indeed, funding for dyslexia support was part of the budget proposal. He seemed to compensate as an adult by being able to memorize large volumes of information rather than rely on a written script or even notes. In any case, this style of presentation - charts and data presented at great length and seemingly without written material - foreshadowed his practice that was soon to be used in public presentations when the coronavirus crisis overwhelmed most other state issues. He

³⁰John Phillips and Michelle Phillips. <https://www.youtube.com/watch?v=R0ZGJRQVZeY>.

³¹Quoted in Sophia Bollag, "California boom is ending, Gavin Newsom warns as 2020 budget writing begins," Capitol Alert of *Sacramento Bee*, October 17, 2019. Available at <https://www.sacbee.com/news/politics-government/capitol-alert/article235759857.html>.

³²Joe Mathews, "Is the Budget Presser Over Yet?" *Fox & Hounds*, January 13, 2020. Available at <https://www.foxandhoundsdaily.com/2020/01/is-the-budget-presser-over-yet/>.

would speak regularly in news conferences streamed online via Facebook and other social media, always with charts and data, but without notes.

The Normal Process

From January 2020 until early March, the budget process unfolded in a standard fashion. The LAO began to churn out reports on various fiscal issues. Some were overviews of large segments of the budget: transportation, K-12, higher education, environmental protection, Medi-Cal, and criminal justice. Some were more detailed: (chronic) problems the state had in modernizing its IT infrastructure, taxation of e-cigarettes, medical education, operation of the Student Aid Commission and the Public Utilities Commission, prison maintenance, cybersecurity plans, implementing AB 5 (the state law that sought to classify Uber, Lyft, and other gig workers as regular employees), and implementation of state reimbursements for mandates imposed on local governments. Using such information, the legislature began to hold hearings on these and other aspects of the budget.

Because there was no particular budget crisis, the degree to which public attention was focused on Sacramento's fiscal debates and other policy issues was limited. The one indication of public sentiment was the rejection of a \$15 billion school bond that appeared on the March 3rd presidential primary ballot. It seemed that voters were not leaning toward whatever long-term budgetary obligations such a bond issue might entail.³³

The defeat of added state debt occurred despite the fact that the March presidential primary was mainly of interest to Democrats, since there was no real opposition on the Republican side to re-nominating President Trump. It occurred despite the fact that voters in the Democratic primary leaned toward Bernie Sanders.³⁴ It might have been expected that an electorate that leaned toward the left would favor a school bond. But it didn't happen that way.

State of the State

Normally, the governor gives his State of the State address not long after the budget presentation. But again, Newsom deviated. First, he delayed the address until February 19th, well over a month after the budget presentation. Second, while such addresses typically cover a wide range of issues facing the state, the governor devoted his address almost entirely to homelessness and the connected lack of affordable housing. Much of the address dealt with describing the problem and its history. The emphasis on homelessness seemed in part to be

³³The school bond, which appeared as Proposition 13 on the ballot, received 47 percent of the vote. There was some talk at the time of the defeat that voters were somehow confusing this Prop 13 with the famous Prop 13 of 1978 which drastically cut property taxes. But it is not clear whether such confusion – assuming it even existed – might have swayed voters towards a yes or a no vote.

³⁴Sanders received 36 percent of the vote in the Democratic primary; Joe Biden, the eventual Democratic nominee, received 28 percent.

triggered by the phenomenon of large tent camps of homeless individuals which had attracted public attention (including the criticism mentioned earlier by President Trump).

The main element in the address was additional money for dealing with the homeless problem. But on housing, although the governor had pushed localities to adopt changes in their zoning practices that would add to the housing stock, a bill to do so – SB 50 – had died in the legislature (as it had during Newsom's first year). It wasn't clear, absent legislation, how much the governor could accomplish. Other bills related to housing and zoning also died in the legislature.

By the time of Newsom's State of the State address, the coronavirus crisis was less than a month away. And dealing quickly with homelessness as part of trying to check the spread of the disease would suddenly become a concern and would open the door to some specific short-term actions. But, again, the coronavirus problem – at least as perceived by state political leaders and the general public – was still not foreseen, although the stock market had begun to decline as reports from abroad suggested there could be economic difficulties ahead. Apart from that disturbance in the financial markets, other issues tended to grab public attention.

The Public Focus

There were culture war issues absorbing public attention. During the coronavirus crisis, travel bans designed to stop the spread of the virus into the U.S. (and by other countries against the U.S.) were implemented. But during the winter, the travel ban issue that was in the news involved a ban on California state employees using public funds to travel to Texas and other states with conservative policies regarding abortion and LBTQ rights.

Closer to the budget was a toying by the University of California Regents with a tuition increase, possibly based on a so-called "cohort approach."³⁵ But that plan was killed, or at least deferred, and, eventually, the coronavirus crisis would end any talk of tuition increases. Regents Chair John Pérez and UC-Berkeley Chancellor Carol Christ had indicated that a tuition increase would eventually be needed so that cross-subsidies could be increased for low-income students.³⁶ But even that framing of the issue ended when the coronavirus hit. Long-term thinking was replaced by the immediate crisis.

One issue that lingered, and that could eventually be a source of difficulty in dealing with the coronavirus crisis, was the seeming sympathy of the governor for the anti-vaxxer crowd, noted earlier. There was sufficient criticism of the governor on that issue that he had subsequently

³⁵Under the proposal, admitted students in a cohort would have had their tuition level frozen until graduation but tuition would go up each year for each new cohort of admitted students.

³⁶Both officials' viewpoints are described in Alexandra Feldman, "'We need a hard reset': UC Berkeley hosts panel on challenges for next UC president," *Daily Californian*, February 7, 2020. Available at <https://www.dailycal.org/2020/02/07/we-need-a-hard-reset-uc-berkeley-hosts-panel-on-challenges-for-next-uc-president/>.

stayed away from it. But in February 2020, it was reported that “first partner” Jennifer Siebel Newsom – the governor’s wife – had given some assurances to a group of anti-vax protesters.³⁷

While at this writing there is no vaccine yet available for coronavirus, should one be developed, it would only be effective at ending the crisis if many people took it. Anti-vaxxers, who were prominent in demonstrations against lockdown orders, masks, and other public health policies related to the coronavirus, would surely agitate against any new vaccination. Past actions and past words of the governor and the first partner could be used in such a campaign to create public resistance.

Crisis and The May Revise

*What this country is coming to,
I sure would like to know,
If they don't do something by and by,
The rich will live and the poor will die,
Doggone, I mean the panic is on.*

“The Panic Is On” (Song, 1931)³⁸

As March began, the coronavirus began to creep into budgetary affairs. The governor asked for an appropriation from state disaster funds of \$20 million for testing and tracing of cases that were beginning to appear in the state. A few days later the governor declared a state of emergency. At the time, however, the declaration was presented as a technical matter allowing resources to be allocated to the problem. To the general public, it was an emergency that really wasn’t an emergency. It was still a problem abroad in faraway places such as China and Italy, and only peripherally in California.

Indeed, if you look at issues before the legislature at around that time, they were a mix of matters ranging from whether the state should go on permanent daylight savings time (which voters had seemed to favor in a 2018 ballot proposition), ongoing funding issues of the high-speed rail, whether to revive some version of the plan to limit local zoning discretion, and whether to offer voters a chance in November 2020 to repeal Prop 209 of 1996, the voter-

³⁷Melody Gutierrez, “Anti-vaccine protesters get assurances from Jennifer Siebel Newsom during impromptu chat,” *Los Angeles Times*, February 24, 2020. Available at <https://www.latimes.com/california/story/2020-02-24/vaccine-critics-assurances-jennifer-siebel-newsom-governor-california>. The degree to which Jennifer Siebel Newsom acts independently on political matters from the governor is unclear. The governor endorsed California Senator Kamala Harris for president in the Democratic primary until she dropped out of the race. Closer to the actual California primary date, his wife endorsed Massachusetts Senator Elizabeth Warren while the governor remained silent.

³⁸Hezekiah Jenkins. <https://www.youtube.com/watch?v=SqEe8boort4>.

approved ban on affirmative action. Other than the governor's request for some funding to deal with testing and tracing, the coronavirus was not a pressing issue.

The Crisis Unfolds

But by the second week of March 2020, the official climate changed abruptly. The governor announced that large gatherings of 250 or more people should be avoided and that something termed "social distancing" should be adopted. Such behaviors were not being mandated, however. He requested \$1.1 billion in virus-related funding which was approved.

Changes in everyday behavior began to flow from Sacramento. In-person classes at universities ended. Governors in other states began to act. Reports of coronavirus test capacity shortages and backlogs began to surface. Shelter-in-place orders were issued. Schools shut down in-person instruction and attempted to convert to online instruction with mixed results. Restaurants, bars, and non-emergency retail establishments were closed. Panic buying caused shortages of household items such as toilet paper.

The governor alerted the public that his January budget proposal was now "*inoperable*" and that something more frugal would be coming as part of the May Revise.³⁹ Exactly, what aid from the federal government might be available was unclear. The LAO switched gears and began turning out reports about the effect of the coronavirus on aspects of state finance.

LAO estimated in early April that the state government would receive about \$8.5 billion in federal coronavirus assistance and local governments in California might receive another \$6.9 billion.⁴⁰ Later reports from the state controller indicated that the general fund received \$9.53 billion during April under the federal Coronavirus Aid, Relief and Economic Security (CARES) Act. Outside the state budget, the state's unemployment compensation fund received substantial federal funding.⁴¹

As the days went on, Governor Newsom began issuing stricter and stricter decrees and holding more and more frequent live-streamed news conferences. A typical format would involve the governor announcing a new restriction (or later the reverse), presenting large volumes of data and charts (in a style that had been previewed in his budget presentations) and then answering

³⁹Quoted in Hannah Wiley and Adam Ashton, "'Beyond Crazy': Coronavirus turns California's \$20 billion budget reserves into red ink," *Sacramento Bee*, April 15-16, 2020. Available at <https://www.sacbee.com/news/politics-government/capitol-alert/article241906161.html>.

⁴⁰Legislative Analyst's Office, "State Budget Effects of Recent Federal Actions to Address COVID-19," April 5, 2019. Available at <https://lao.ca.gov/Publications/Report/4217>.

⁴¹The state auditor estimated in late August that the unemployment insurance fund had received \$40 billion and the state's Medi-Cal (Medicaid) fund had received \$10.2 billion. The total with those and other programs was \$71.8 billion. <https://www.auditor.ca.gov/pdfs/reports/2020-602.pdf>.

questions by reporters.⁴² The governor made these presentations in which he often referred to California as a "nation-state," at least until so many questions were raised about the meaning of that term that he largely dropped it.

However, Newsom didn't drop a vocabulary and speaking style apparently popular in Silicon Valley circles in his news conferences. Topics were referred to as "spaces." Important things were "foundational" whereas details were "granular." Topics (spaces?) were not just explained; instead, they were "contextualized." Policies weren't just planned; they were "intentional." Programs weren't just large enough for the job; they were "at scale" and involved "scale and scope."

=====

Governor Newsom-Speak

Phrase	Translation
Nation-state	California
In this space	A topic
Foundational	Important
Granular	In detail
Contextualize	Explain
Intentional	Planned
Scale and scope	Large
At scale	Large enough
Actionable	Doable
In real time	*

*Hard to translate since all actions occur in real time. It suggests something going on now rather than in the future.

=====

The purpose of the many gubernatorial news conferences – which continued into the summer – seemed to be two-fold. First, there was the obvious need to inform the public and to appear to be in control of the situation and "transparent" about anti-virus policies and infection data. Second, at the time the news conferences began, President Trump was holding repeated televised news conferences and making headlines by often contradicting his own health advisors. So, the Newsom events were in part meant to be an alternative to what was happening in Washington.

The White House events continued until at one point the president seemed to suggest ingestion of bleach and ultra-violet light as a remedy for coronavirus infection. At that point, the presidential events became a subject of mirth, and they were largely discontinued. They

⁴²For videos of these many news conferences, go to <https://archive.org/details/@danieljbmitchell> and use the search engine to search for "coronavirus Newsom."

resumed in the summer until the president referenced a doctor who reportedly had claimed that alien DNA was being used in medical treatments.⁴³

In contrast to the president, Governor Newsom sought to project in his live-streamed news conferences an image of well-informed coolness and authority. A brief hiatus occurred in early August when it turned out that there had been a data system failure leading to incorrect statistics. The director of the Department of Public Health was apparently fired as a result and a week later the events resumed.⁴⁴

In any case, Newsom wasn't the only state chief executive to hold competing news conferences in competition with the president. Governor Cuomo of New York – the New York City area was one of the early “hot spots” for the infection in the U.S. – also held repeated news conferences. So did Mayor Garcetti of Los Angeles. After the legislature was forced to stop meeting in-person because of the crisis, Governor Newsom in effect became the sole face of state government during the early stages of the crisis.

Given the decrees and the severity of the lockdown of the economy, concerns began to be raised as early as mid-March – well before the later protests about police actions in Minneapolis and elsewhere - about possible social unrest, about use of the National Guard should it occur, and even about “martial law.”⁴⁵ Newsom announced that he had put the National Guard on alert, but only for humanitarian purposes. Asked if martial law might be used, Newsom said the option was there “*if we feel the necessity.*” But he went on, “*I don't want to get to the point of being an alarmist.*”⁴⁶

=====

⁴³“Trump halts daily briefing amid questions about support for 'alien DNA' doctor,” *The Guardian*, July 28, 2020. Available at <https://www.theguardian.com/world/video/2020/jul/29/trump-halts-daily-briefing-amid-questions-about-support-for-alien-dna-doctor-video>.

⁴⁴Governor Newsom refused to go into detail as to the reason for the “resignation.”

⁴⁵Martial law is a technical term involving rule by the military. Even instances in California in which the National Guard was called out in response to social unrest (Los Angeles in 1992; Watts in 1965), there was no “martial law.”

⁴⁶Quoted in Adam Beam, “Virus called unlikely to prompt martial law in California,” *U.S. News*, March 18, 2020. <https://www.usnews.com/news/best-states/california/articles/2020-03-18/virus-called-unlikely-to-prompt-martial-law-in-california>.



One of Governor Newsom's many live-streamed coronavirus news conferences, this one of July 17, 2020

Executive Action

A variety of policies were enacted, essentially by emergency decree. Banks were ordered to halt foreclosures. Mass layoffs that normally require a 60-days' notice were allowed without penalty if due to the coronavirus and lockdown. Restrictions on local governments' use of housing money were relaxed to facilitate moving homeless persons into hotels and motels under "Project Roomkey." Rules intended to make it easier to claim unemployment insurance benefits were put into effect, although the state's unemployment insurance system remained overwhelmed by the volume of claims resulting in long delays.

Normally, schools receive payment based on average daily attendance. During the crisis, school districts were allowed to receive continued funding even though students were not attending in-person. Steps were taken to encourage vote-by-mail in future elections. A loose form of price control was announced to prevent "price gouging" on consumer items in short supply.

Although these actions were intended to project confidence and assurance, occasionally there were slips. At one point, the governor seemed to predict that over half of California's population would soon be infected. In fact, the number was simply a projection from a particular model of infection that was based on the assumption that no preventative steps were taken.

More generally, the issue of modeling was neither well presented to, nor understood by, the public. Computer models are not magic. They depend on critical parameters. In the case of economic forecasting models, for example, such parameters are typically based on past statistical history. But for a new virus there is no past history to put into an infection model. You can plug in estimates based on experience with other viruses, but that experience may not be

relevant for the new one. The fact that a model runs on a computer seemingly gives the results an appearance of certainty, which it definitely does not have when key information is based on guestimates.

What was feared from a policy perspective was the development of an Italian-type situation. In Italy, hospitals became overwhelmed with coronavirus cases to the point that ill persons (whether from the virus or other health problems) were turned away. Sufficient equipment to meet the sudden surge in demand was not available. Demand far exceeded supply.

To avoid such a scenario in California, hospitals deferred elective procedures and prepared themselves for emergency rooms filled with coronavirus patients. Capacity was added by reopening a closed hospital, creating tent facilities, and putting beds in a sports arena. The Navy sent a hospital ship to Los Angeles. Similarly, a program was announced to increase the healthcare workforce by such steps as bringing retired workers back into service.

Efforts were made to “flatten the curve” of new cases sufficiently relative to modeled projections so that hospital capacity would not be overwhelmed. As it turned out, the curve was flattened to the degree that the added capacity wasn’t needed. Given the lockdown, the projected onslaught of cases didn’t arise. Hospitals, which had delayed dealing with non-coronavirus cases, were put in a difficult financial situation since the absence of normal care and procedures meant lost patient revenue. By late April, Governor Newsom announced guidelines for hospitals to return to more normal operation.

Although some Democratic governors feuded with the Trump administration, Newsom avoided making such criticism and confined himself to thank-yous for whatever aid was received. (There was, however, continued state resistance via litigation to such non-virus matters as environmental standards.) But absent federal assistance in some areas – notably procurement of ventilators and other equipment including masks for healthcare workers – the state made deals with various suppliers, circumventing standard procurement procedures. It turned out that the state at one time had put away in storage a substantial reserve of such equipment. However, under Jerry Brown, as part of Brown’s efforts to deal with the budget crisis that followed the Great Recession, that capacity had been dissipated.

In any case, there were reports of state dealings with shady suppliers and the making of questionable contracts. One instance involved a state payment of \$457 million to a firm, a payment that was clawed back by the state (and thus not lost) when banks alerted state officials about suspicions concerning the contract. Newsom explained such problems as the result of having to deal with “*the Wild, Wild West in the early part of this pandemic*.”⁴⁷ He defended the deals by pointing to the ultimate success in procuring masks and ventilators.

⁴⁷Quoted in Adam Elmahrek and Melody Gutierrez, “A politically connected firm gets an \$800-million mask contract with California. Then it falls apart,” *Los Angeles Times*, May 9, 2020. Available at <https://www.latimes.com/california/story/2020-05-09/coronavirus-california-contracts-masks-bear-mountain>.

Newsom's ultimate response to criticisms of decisions that had to be made quickly in the face of an unprecedented emergency was "*I'm not able to hypothesize about coulda, woulda, shoulda.*"⁴⁸ That comeback was not unreasonable, given the circumstances. Nonetheless, news reporters, auditors, and historians will undoubtedly critically examine what was and wasn't done. Since at this writing the crisis is still continuing, it's hard to predict what their future verdicts will be.

Various new programs were announced, but they did not always perform at the levels promised. The newly unemployed had continuing problems simply applying for state unemployment insurance, and then actually receiving the benefits once enrolled. The huge volumes of applications were unprecedented and sudden, and the application and benefit systems were overwhelmed. In normal recessions – even those recessions which produce very high levels of unemployment – the process of economic decline is more gradual than a situation in which the government essentially orders businesses to close overnight. Other states had similar problems, but California's caseload processing was not helped by its antiquated computer systems.

Testing was not always easily available and when it was, test results often were delayed. Even in late August 2020, a news report indicated that nursing home inspectors themselves were not being regularly tested. One inspector was quoted as saying "*I think nursing homes shouldn't let us in.*"⁴⁹ Under the "Great Plates" program, otherwise vacant and economically-challenged restaurants were to supply meals to needy seniors who were confined to their homes. It happened, but not to the degree promised. Finally, despite state decrees, some local officials refused to cooperate, and – in effect – dared the governor to enforce compliance. In short, it proved easier to announce new programs and rules than to put them fully into operation.

Demands for Reopening

Still, because the state did succeed in avoiding an Italy-type scenario and in flattening the curve of new cases to well below hospital capacity, by mid-April there was strong pressure to begin to "reopen" the economy and relax the stay-at-home rules. The governor promised he would come up with a plan but what was actually issued was a set of six general criteria which included:

- The ability to monitor and protect communities through testing, contact tracing, isolating, and supporting those who are positive or exposed.
- The ability to prevent infection in people who are at risk for more severe coronavirus.

⁴⁸Quoted in CalMatters/WhatMatters newsletter of July 20, 2020. Available at <https://calmatters.org/newsletters/whatmatters/2020/07/california-schools-closed-online-newsom/>.

⁴⁹Quoted in Jack Dolan and Brittney Mejia, "Most nursing home inspectors still haven't been tested for the coronavirus, despite Newsom pledge," *Los Angeles Times*, August 26, 2020. Available at <https://www.latimes.com/california/story/2020-08-26/most-nursing-home-inspectors-still-not-tested-for-coronavirus-despite-newsom-pledge>.

- The ability of the hospital and health systems to handle surges.
- The ability to develop therapeutics to meet the demand.
- The ability for businesses, schools, and childcare facilities to support physical distancing; and
- The ability to determine when to reinstitute certain measures, such as the stay-at-home orders, if necessary.⁵⁰

Newsom said he would be “*guided by science and data*” in developing a reopening program.⁵¹ Of course, no scientific formula existed to weigh the six considerations or directly to connect them to particular decisions. And no model existed that could precisely predict human behaviors that would occur in response to any rule relaxation. Ultimately, the direction of policy was based on a political balancing, however imperfect, of projected health effects and projected economic effects.

All of this gubernatorial executive activity created frictions. There were general complaints from rural areas of the state that the coronavirus problems were mainly concentrated in urban areas, but that rural inhabitants were being subject to statewide orders. Rural areas of the state tend to be represented by Republicans who have been marginalized at the state level. So, the opportunity to defy the governor was enticing as a political matter. In addition, President Trump was downplaying the crisis and pushing for a rapid reopening.

However, frustrations were not confined to Republicans. Democrats in the legislature were frustrated at being out of session and out of the public spotlight. They began to complain about being left out of the policy loop. A compendium – put together for a Republican assembly representative - of all of the governor’s executive orders from early March 2020 through June ran over 120 pages.⁵²

Legislative Democrats demanded information about questionable contracts for masks and other equipment. And there were various lawsuits, several from religious groups, challenging different aspects of Newsom’s various executive orders. Generally, however, in the midst of a pandemic, courts were reluctant to overturn emergency decisions by the governor. But over time, there was more willingness to second guess the governor by courts, local officials, news commentators, and the public.

In response to growing pressure, Governor Newsom did what is sometimes done to diffuse political criticism. He created a large task force consisting of business, labor, and community leaders, legislative leaders, and others to advise on reopening. Since there was a pandemic,

⁵⁰Office of the Governor, “Governor Newsom Outlines Six Critical Indicators the State will Consider Before Modifying the Stay-at-Home Order and Other COVID-19 Interventions,” news release of April 14, 2020. Available at <https://www.gov.ca.gov/2020/04/14/governor-newsom-outlines-six-critical-indicators-the-state-will-consider-before-modifying-the-stay-at-home-order-and-other-covid-19-interventions/>.

⁵¹Op. cit.

⁵²The compendium for Assembly Representative Kevin Kiley can be found at <https://blog.electkevinkiley.com/wp-content/uploads/2020/07/COVID-19-Executive-Orders-updated-06302020-1-1.pdf>.

however, the group couldn't meet in person and it remains unclear what – if any – role it played in subsequent gubernatorial decisions. To date at this writing, no official reports of the task force have appeared. In any case, the real reopening occurred well after the task force was formed. It took place around the Memorial Day weekend, a weekend that featured a combination of recreation and – unforeseen until they occurred – large protest demonstrations sparked by George Floyd's death at the hands of police in Minneapolis.

While the protests could not have been predicted, the recreation response had been previewed at the end of April when a heat wave led to weekend crowds, especially on Orange County beaches. In response to news photos and videos of the crowds, Governor Newsom ordered all beaches and state parks closed. Complaints about the restrictions led to creation of an official list of allowable ways to exercise and recreate including such suggestions as walking the dog and washing the car.⁵³

After the George Floyd demonstrations, there were complaints on the political right as to why large protest crowds were being allowed to assemble, but not, say, indoor church services or other activities involving large groups of people. On the political left, there seemed to be efforts to distinguish between good crowds and bad crowds. Viruses, however, have no interest in American politics or social problems and infect when given the opportunity.⁵⁴ What appeared to experts to matter were such factors as indoor vs. outdoor, crowded together vs. socially distanced, masked vs. uncovered, and loud speaking (whether chanting slogans or singing religious music) vs. normal speech.

⁵³Amy Graff, "California releases detailed list of outdoor activities allowed during shutdown," *SFGATE*, April 30, 2020. Available at <https://www.sfgate.com/news/editorspicks/article/California-outdoor-activities-allowed-stay-home-15238108.php>.

⁵⁴As with other events, the issues of the severity and causation of the coronavirus crisis after the Memorial Day weekend were politicized. Absent detailed contact tracing, it was impossible to separate infections that might have resulted from recreational activities from those that might have been related to protest activities. When the question came up in one of the Newsom news conferences, Dr. Sonia Angell, then-director of the California Department of Public Health, indicated that both types of gatherings likely played a role in the subsequent increase in cases but that the impacts could not be separated. See <https://www.youtube.com/watch?v=tNUb1DJjPfk>. The Los Angeles County Department of Public Health similarly cautioned about protests spreading the coronavirus in late August when another wave of demonstrations occurred. See <http://publichealth.lacounty.gov/phcommon/public/media/mediapubdetail.cfm>. Although those sympathetic to the demonstrations were anxious to show there was no effect of spreading the virus, proxy studies – just looking for a rise in infections after some event – will tend not to identify an impact of a particular gathering or gatherings. For example, to take an example on the right, a National Bureau of Economic Research (NBER) study of President Trump's indoor and largely unmasked rally in Tulsa, Oklahoma was unable to find a subsequent infection impact in the local area. See Dhaval M. Dave, Andrew I. Friedson, Kyutaro Matsuzawa, Drew McNichols, Connor Redpath, and Joseph J. Sabia, "Did President Trump's Tulsa Rally Reignite COVID-19? Indoor Events and Offsetting Community Effects," NBER Working Paper No. 27522, July 2020. The authors suggested that the lack of an impact finding was possibly due to offsetting behavior by other residents of the Tulsa area who stayed home, fearing an outbreak, i.e., a confounding factor. Available at <https://www.nber.org/papers/w27522.pdf>. The fact is – as noted in the text – that viruses have no interest in American social and political problems or right vs. left political leanings. Indeed, they are not even classified as living organisms. They are just things that spread when enabled – for whatever reasons – by humans and other animals.

Big Number

It is not unusual in the case of both the January budget proposal or the May Revise for bits of the plan to be leaked or previewed before the actual announcement. In the case of the May Revise for the 2020-21 budget, the preview involved information from a memo indicating that the proposal would address a “deficit” of \$53.4 billion (a number which was later revised upward). As noted earlier in this chapter, California budgetary language is often sloppy. The number was not a common-parlance deficit in the sense that it did not refer to revenue less than spending in the upcoming fiscal year.

Indeed, the so-called “deficit” was sometimes alternatively referred to as a problem, a gap, or a shortfall, phrases which - we have already noted - are not defined in accounting textbooks. Nonetheless, the number was reported in news accounts without definition. There is opinion poll evidence that public concern about the budget shot up and then gradually receded in response to the shock.⁵⁵

The big number released by the governor may have been a “shock and awe” tactic designed to ease the forthcoming May Revise’s path through the legislature. Whether it had that effect in the end is unclear. At one point after the number was released, state senate Democrats began to hatch a plan to raise \$25 billion by giving vouchers to taxpayers who agreed to pre-pay their income taxes, apparently an effort to circumvent a state constitution ban on borrowing via bonds for current expenses.⁵⁶ That response suggested that the legislature was shocked by the big number but not awed. It also suggested instead that legislators were anxious to find a way to avoid draconian cuts, even if the voucher scheme was a dubious approach.⁵⁷

The May Revise

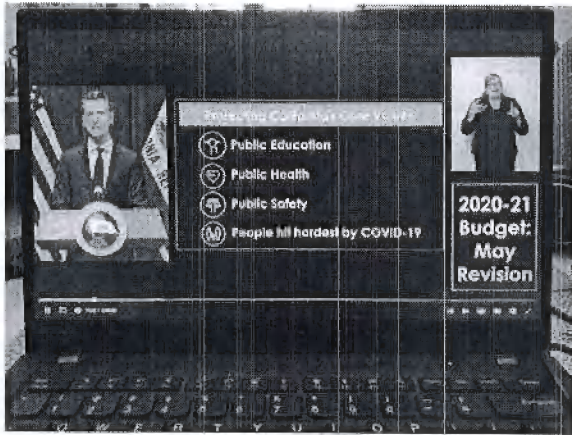
By the time the May Revise was officially unveiled, the preliminary \$53.4 billion Big Number was raised to \$54.3 billion. The headlines featured stories of what was to be cut. Tables 5 and 6 give the macro outline. Compared to what was put forward in January, the governor in May had proposed cutting spending by something over \$19 billion in 2020-21. But Table 5 shows his tax revenue was projected to be down by something over \$33 billion when you exclude the “other” category that includes transfers. The only way to sustain the discrepancy was to pull down reserves - unless the federal government stepped in with significant aid. The May Revise

⁵⁵Public Policy Institute of California, *Californians & Their Government, May 2020*, June 3, 2020, p. 6. Available at <https://www.ppic.org/wp-content/uploads/ppic-statewide-survey-californians-and-their-government-may-2020.pdf>.

⁵⁶As noted earlier in this chapter, after the recall of 2003, Governor Schwarzenegger persuaded voters to amend the state constitution on a one-time basis to allow bond borrowing with the promise that having dealt with the then-prevailing budget crisis, the state would “throw away the credit card.” Voters approved and he borrowed \$15 billion in “Economic Recovery Bonds.”

⁵⁷The voucher idea eventually became a bill requiring a report on the idea rather than its implementation.

assumed no aid would come, but it allowed for automatic spending increases tied to federal aid should such assistance arrive.



Governor Newsom presents May Revise in live-streamed news conference: May 14, 2020.

The legislature, as time progressed, preferred a more optimistic view of what the federal government might do. In effect, Democratic legislators wanted to assume federal aid would come, and have cuts only if it didn't. Note that the distinction in terms of the actual budgetary effect is not sharp. In fact, the two approaches would not in concept produce different after-the-fact results. In either case, the federal aid would come, or it wouldn't. In either case, there would be bigger cuts if there were no aid and more spending if the money arrived.

Newsom's ungainly recovery committee wrote a letter to the Congressional and U.S. Senate leadership advocating for federal aid to the state. But no such aid appeared by the time the legislature was required to pass a budget (June 15) or by the time the budget year was to begin (July 1). The governor took a voluntary 10% pay cut, a form of shared pain, because his budget assumed state worker pay would be cut directly or through furloughs.⁵⁸ A news media inquiry in mid-August that the governor's pay cut hadn't happened - because of an "oversight," his office explained - and a retroactive cut was hastily ordered. As of the end of August (and this writing) no agreement had been reached at the federal level for more aid.

At the time of the May Revise, California - and particularly San Francisco - was being heralded as having responsibly shut down early and thus (perhaps) more worthy of aid and reward than New York City - which was then the infection capital. Soon after the May Revise was announced, for example, it was announced that the vacant hospital in Los Angeles that had been set up to deal with a potential surge in patients would close by the end of June. The

⁵⁸There is a state commission that sets pay rates for the governor and legislators and others. It proposed a pay freeze for the individuals it covered, although its chair suggested voluntary cuts should be considered.

Navy's hospital ship that had been sent to the Port of Los Angeles sailed away. The feared surge in coronavirus cases, it was assumed, had been averted.

Soon, however, the image of Bad New York/Good California was to change and, indeed, to reverse. By the summer, infection rates in California began to soar. Apparently, there was a delayed response to relaxed standards and the Memorial Day weekend that had featured a mix of crowded beaches, recreation, and large protests.

If you look at expenditures on Table 6 as they appeared in the eventual June budget, the total amount enacted by the legislature agrees with the governor's May proposal. But there are variations in individual expenditures with some raised and others lowered to get to that total. However, getting to the final budget on time proved difficult. Since it is up to the legislature to define what passing a budget by the constitutional deadline actually means, there really wasn't a final resolution by June 15. Instead, the legislature passed something it defined as a budget, and the governor and the legislature continued negotiations on the specifics.

What stood out as the two houses of the legislature, and then the legislature as a whole worked on an alternative to the May Revise was the general lack of information available to the public. In past sessions, when times were good and accommodation was therefore easier, the LAO would provide publications comparing the May Revise with what the legislature was proposing in some detail. There were publications by the LAO this time, but they were incomplete – most likely because the legislature's proposals were incomplete. News reports appeared that legislators wanted less-steep cuts of this or that program than in the May Revise. However, complete tables showing revenues, expenditures, and changes in reserve accounts were not produced (for the public, at least) as the negotiations continued.

State of Emergency

As noted earlier, large protests had arisen during the Memorial Day weekend in response to the George Floyd killing in Minneapolis, and violence erupted in conjunction with the demonstrations, particularly in the LA area. In response, the governor on May 30 declared a state of emergency in Los Angeles County based on a finding that *"local authority is inadequate to address the threat posed by the civil unrest."*⁵⁹ Pursuant to the governor's proclamation, the California National Guard was deployed to Los Angeles. Local cities in the County, including Los Angeles, invoked curfews. The governor declared that *"violent actors may be attempting to use these protests for their own agendas."*⁶⁰

⁵⁹Proclamation of a State of Emergency." Available at <https://www.gov.ca.gov/wp-content/uploads/2020/05/5.30.20-Los-Angeles-SOE-Proclamation.pdf>.

⁶⁰Governor Newsom Statement on Demonstrations Across California and the Passing of Federal Officer, May 30, 2020. Available at <https://www.gov.ca.gov/2020/05/30/governor-newsom-statement-on-demonstrations-across-california-and-the-passing-of-federal-officer/>.

Because of the general lack of transparency around the budget negotiations, it is hard to know what impact the combination of a health crisis, a budget crisis, and a crisis of social unrest played in the ultimate outcome. Much of the direct budgetary significance of the protests was more a matter of local government finance, namely the funding of police departments, rather than state finance. However, because coronavirus infections were spreading in state prisons, there was some acceleration of prisoner releases which reduce costs. The actual *state* cost involved in protecting state buildings and activities related to the protests was estimated to be about \$2 million, a negligible amount when compared to the overall budget.⁶¹

The Enacted and Uncertain Budget Outlook

*And now my life has changed in oh so many ways (and now my life has changed)
My independence seems to vanish in the haze
But every now and then I feel so insecure
I know that I just need you like I've never done before.*

"Help" (Song, 1965)⁶²

A deal between the legislature and the governor was not reached until June 22. A major element was to allow local school districts effectively to borrow to maintain their budgets against a future obligation (not an obligation that would hit the state budget in 2020-21), to cover the borrowing.⁶³ The compromise enacted budget followed the May Revise, although with variation on what was cut and by how much. Notably, it set the "trigger" adjusting spending based on Congressional action between July 1 and October 15, 2020. The amount of federal aid received by October 15 would determine the "final" levels of spending.

Cloudy Political and Economic Future

A budget whose final outcome depends on a trigger creates obvious problems for planning. Those officials in charge of state programs or agencies were left having to figure what activities they could and could not undertake without knowledge of what their budgets might turn out to be. And there were implicit assumptions underlying the entire budget about the future course

⁶¹Matt Kristoffersen, "State spent \$900,000 protecting state buildings during Black Lives Matter protests," State Worker blog of *Sacramento Bee*, June 20, 2020. Available at <https://www.sacbee.com/news/politics-government/the-state-worker/article243673772.html>.

⁶²The Beatles. https://www.youtube.com/watch?v=2Q_ZzBGPdQE.

⁶³Because a deal had been reached between the governor and the Democratic legislative leaders, there were no line-item vetoes of funding. The governor vetoed only a provision in the budget bill that appeared to block the University of California from rolling over some unspent funds into the new fiscal year. He attributed his veto to legislative intent, suggesting that a drafting error in the final bill was being corrected.

of economic activity (and thus revenue generation) which could turn out to be wrong. There was also the possibility of mid-course budget adjustments by the legislature, as had occurred during the Great Recession. That is, any aspect of the budget enacted in June 2020 could be revised by the legislature, even the terms of the trigger.

The main clue available to budget aficionados in mid-summer 2020 was the July cash statement issued by the state controller. It revealed that the June budget had underestimated the sum of corporate and personal income tax receipts in July (deferred from April), both based on calendar year 2019, i.e., pre-coronavirus. That was the Good News, since it meant – *other things equal* – reserves would be higher than projected.⁶⁴ But the Good News report was largely a reflection of the past.⁶⁵

There was also seeming Bad News – based on figures from the state controller – in that sales tax receipts for July were well below the projected level and well below the level for July of the prior year. Sales tax receipts are a proxy for consumption, an important component of the state's economy, and the overestimate suggested an economy worse than anticipated. However, the Department of Finance and Legislative Analyst's Office claimed the controller's numbers were distorted by delays in reporting, and that sales tax receipts were in fact higher than had been projected.⁶⁶ In any event, the LAO projected that external borrowing for seasonal reasons would not be necessary in 2020-21.⁶⁷

Lights Out

Governor Gray Davis' term in office came to an abrupt finish in 2003, when he was recalled by voters for an ongoing budget crisis and for rolling electricity blackouts that followed a poorly-designed deregulation of power generation and distribution. Before leaving office, however, Davis had patched together a redesigned electricity system which continued thereafter. He had also used hard-pressed state budgetary resources to buy electricity for the utilities.⁶⁸ The PG&E bankruptcy already had raised the question of reformulating the electricity arrangements for the state, but – given the pandemic – that issue had dropped in priority and public attention.

As temperatures warmed in August 2020, however, rolling blackouts began to occur again as power consumption rose, especially for air conditioning. Governor Newsom – with the Davis episode clearly in mind – gave one of his live-streamed talks, terming the blackouts “*unacceptable*” and promising, amid

⁶⁴Personal income tax receipts were above the projected level while corporate tax receipts were below. The total of the two was above.

⁶⁵The tax payments delayed from April mainly referred to the 2019 calendar year, i.e., pre-coronavirus.

⁶⁶Interpretation based on email exchanges between the two departments and the author. The LAO views cash at the tax receipt agency level as a better indicator of what is happening relative to budget projections than controller reports.

⁶⁷See Legislative Analyst's Office, “An Update on California's Cash Management Situation,” August 31, 2020. Available at <https://lao.ca.gov/Publications/Report/4266>.

⁶⁸Ultimately, the costs to the state were passed on to electricity rate payers.

finger-pointing among regulatory agencies, to investigate who was to blame.⁶⁹ He repeatedly indicated that ultimately the governor was in charge and he would fix the problem.

Electricity is a complicated sector but one of the uncompromising rules of power supply is that at any given moment, supply *must* equal demand for power. There can be no discrepancies, especially in a state which a significant high-tech sector that depends on reliable power and has equipment that can be damaged by deviations. Before the state “deregulated” (really, alternatively-regulated) its electricity sector in the 1990s, it had relied on a longstanding monopoly/regulation model. A sole utility was assigned a geographic jurisdiction. It then was subject to price (and reliability) regulation, essentially based on its costs, to prevent monopoly exploitation of its customers. The utility was integrated, generating (or obtaining) sufficient power and then distributing it to homes and businesses.

The incentives to avoid unreliability and blackouts under such a traditional regulatory system are strong. If the utility were to have insufficient capacity leading to rolling blackouts, it would be penalized by the regulatory authority. On the other hand, the costs of building and maintaining excess capacity to avoid blackouts are simply passed along to customers through regulated pricing. So, other things equal, the utility has a strong (some might say too strong) incentive to maintain excess capacity to handle sudden heat waves or mechanical failures, and to keep power flowing without interruption.

California’s electricity system, post-deregulation of the 1990s and after the Davis modifications, separated the generation and distribution functions. Utilities such as PG&E continued to provide the wires that ultimately brought power to homes and businesses. But power was generated by separate and supposedly competitive suppliers. The task of making sure that supply equaled demand was put in the hands of an Independent System Operator that policed and regulated the grid from an engineering standpoint. The distributing utilities were regulated by the California Public Utilities Commission. In short, there was diffused and complicated authority, no single entity that could be held responsible, and diminished incentive to maintain excess capacity for heat waves and other emergencies. Electricity is like the state budget; reserves are needed for emergencies. But someone needs to make sure electricity reserves are available.

Governor Newsom’s instinct was to find whoever was to blame for insufficient capacity and replace the supposed culprit with someone better. In effect, that is what he had done in removing the director of the Department of Public Health when the coronavirus data gathering system had been found to be deficient. But in the electricity case, the problem seemed more one of (mis)incentives and less one of individual culpability. Moreover, in the midst of a health crisis, a related economic crisis, and a consequent budget crisis, adding electricity supply to the governor’s list of priorities was something of an overload.

What Do We Learn?

*Oh, it's a long, long while from May to December,
But the days grow short when you reach September.
When the autumn weather turns the leaves to flame,*

⁶⁹“Newsom Calls Energy Shortages, Rolling Blackouts During Heat Wave ‘Unacceptable,’” *CBS San Francisco*, August 17, 2020. Available at <https://sanfrancisco.cbslocal.com/2020/08/17/newsom-calls-energy-shortage-rolling-blackouts-during-heat-wave-unacceptable/>.

One hasn't got time for the waiting game.

September song, 1938⁷⁰

It would be nice to draw a neat final conclusion at this writing about the fate of the California 2020-21 budget. In normal times, although no state budget works out exactly as planned, the deviations from plan that do occur are usually nothing to worry about. In coronavirus times, however, events will continue to unfold. New aid may yet flow from the federal government – or not. The November 2020 elections at the federal and state levels will have an impact.

The main lesson to be drawn (as of the end of August 2020) is that the state was well served by having significant budget reserves on hand to cushion the unanticipated shock of events. Such reserves were not on hand when former Governor Schwarzenegger had to deal with the fiscal aftermath of the housing/mortgage crisis and the resulting 2008 Great Recession. And state reserves had been burned though by the time Governor Davis had been recalled in 2003 and replaced by Schwarzenegger in the aftermath of the dot-com bust and recession of 2001.

Since leaving office, former Governor Jerry Brown, who accumulated the reserves Governor Newsom had at his disposal, has occasionally remarked on such Big Picture problems as the world nuclear threat. But – while reportedly enjoying retirement on his ranch - Brown has not made any public comments about California's budgetary situation. He has not referred to his prediction that his successor would find himself standing on a budgetary cliff. On that prediction, and on the general utility of maintaining state reserves, he has left it to others to say for him "I told you so."

⁷⁰Maxwell Anderson, Kurt Weill. <https://www.youtube.com/watch?v=a-ldVj34Sfo>.

Table 1: Evolution of the First Newsom Budget for 2019-20 (\$ Millions)

	Governor July 2019	LAO Nov. 2019	Governor Jan. 2020	Governor May 2020	Governor June 2020
GF reserve 7-1-2019	\$6,772	\$7,748	\$8,497	\$11,280	\$11,280
Revenue & Transfers	143,805	144,158	146,486	136,836	137,625
Expenditures	147,781	146,529	149,749	146,497	146,933
GF Surplus or deficit	-3,976	-2,371	-3,263	-9,661	-9,308
GF reserve 6-30-2020	2,796	5,378	5,234	1,619	1,972
BSA 6-30-2020	16,516	16,186	16,018	16,156	16,116
Safety Net 6-30-2020	900	900	900	900	900
Total Reserves Excluding Prop 98 6-30-2020	20,212	22,464	22,152	18,675	18,988
Prop 98 6-30-2020	377	nab	524	524	524
Total Reserves 6-30-2020	20,589	na	22,676	19,199	19,512

GF = general fund

BSA = Budget Stabilization Account ("rainy day" fund)

na = not available

Source: See Table 4.

Table 2: Evolution of the Second Newsom Budget for 2020-21 (\$ Millions)

	Workload LAO Nov. 2019	Governor Jan. 2020	Governor May 2020	Governor June 2020
GF reserve 7-1-2020	\$5,378	\$5,234	\$1,619	\$1,972
Revenue & Transfers	151,367	151,635	137,417	137,719
Expenditures	148,628	153,083	133,901	133,900
GF Surplus or deficit	+2,739	-1,448	+3,516	+3,819
GF reserve 6-31-2021	8,116	3,786	5,135	5,791
BSA 6-30-2021	18,323	17,977	8,350	8,310
Safety Net 6-30-2021	900	900	450	450
Total Reserves Excluding Prop 98 6-30-2021	27,339	22,663	13,935	14,551
Prop 98 6-30-2021	na	487	0	0
Total Reserves 6-30-2021	na	22,676	13,935	14,551

GF = general fund

BSA = Budget Stabilization Account ("rainy day" fund)

na = not available

Source: See Table 4.

Table 3: Flow Analysis, 2019-20 and 2020-21 (\$ million)

Enacted or Proposed In: Budget Year of:	June 2020 2019-20	June 2020 2020-21	May 2020 2020-21

GF Reserve			
Beginning of Year (July 1)	\$11,280	\$1,972	\$1,619
End of year (June 30)	1,972	5,791	5,135
Surplus or Deficit	-9,308	+3,819	+3,516

BSA			
Beginning of Year (July 1)	13,968	16,116	16,156
End of year (June 30)	16,116	8,310	8,350
Surplus or Deficit	+2,148	-7,806	-7,806

Safety Net			
Beginning of Year (July 1)	900	900	900
End of year (June 30)	900	450	450
Surplus or Deficit	0	-450	-450

Prop 98			
Beginning of Year (July 1)	0	524	524
End of year (June 30)	524	0	0
Surplus or Deficit	+524	-524	-524

Total Reserves Excluding Prop 98			
Beginning of Year (July 1)	26,148	18,988	18,675
End of year (June 30)	18,988	14,551	13,935
Surplus or Deficit	-7,160	-4,437	-4,740

Total Reserves			
Beginning of Year (July 1)	26,148	19,512	19,199
End of year (June 30)	19,512	14,551	13,935
Surplus or Deficit	-6,636	-4,961	-5,264

GF = general fund

BSA = Budget Stabilization Account ("rainy day" fund)

Source: Data from California Department of Finance website,
<http://dof.ca.gov/Budget/>. Click on relevant budget year and document
 (January, May Revise, enacted). Data from Legislative Analyst's Office at
<https://lao.ca.gov/reports/2019/4111/fiscal-outlook-112019.pdf>.

Table 4: UCLA Anderson Forecast of California Unemployment Rate for Calendar 2020

Forecast of:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Dec. 2019	4.0%	4.2%	4.4%	4.5%
March 2020				
Pre-crisis	4.1	4.4	4.6	4.6
Crisis beginning	4.2	5.3	6.1	6.3
June 2020	4.4	14.6	12.2	11.0
Actual	4.4	15.9	na	na

na = not available at this writing.

Note: The coronavirus crisis disrupted the collection of unemployment statistics and distorted the results.

Source: Quarterly UCLA Anderson Forecast publications and early March 2020 revision. U.S. Bureau of Labor Statistics, simple averages of monthly figures.

Table 5: Projected General Fund Revenue in Three Budgets for 2020-21
(\$ Millions)

	January	May	Enacted
Personal Income Tax	\$102,878	\$76,841	\$77,567
Sales & Use Tax	28,243	20,613	20,583
Corporation Tax	16,007	16,577	16,534
Insurance Tax	3,117	2,986	2,986
Alcohol Tax & Fees	389	389	389
Cigarette Tax	58	56	56
Motor Vehicle Fees	38	40	40
Other	2,864	12,109	11,758
Total	153,594	129,611	129,913
BSA	-1,959	+7,806	+7,806
Revenue & Transfers	152,635	137,417	137,719

Source: Data from California Department of Finance website,
<http://dof.ca.gov/Budget/>. Click on 2020-21 budget year and enacted document.

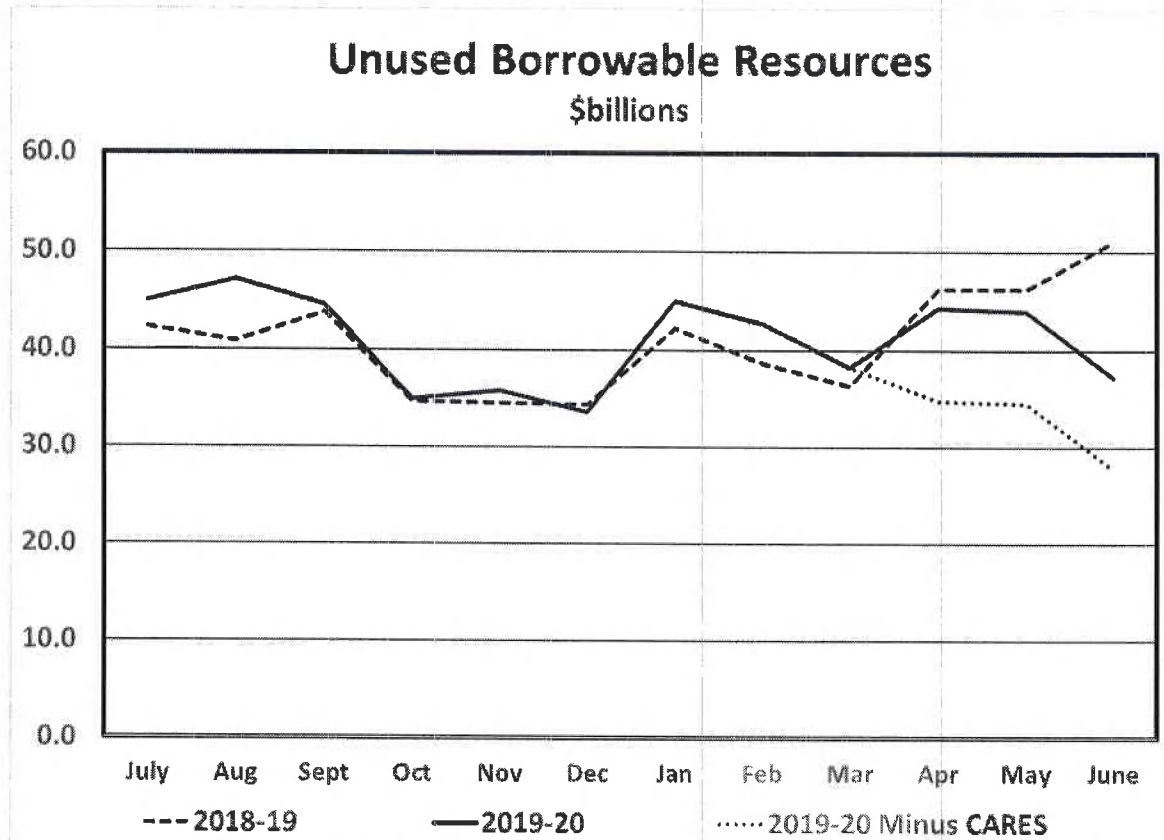
Table 6: Projected General Fund Expenditures in Three Budgets for 2020-21
(\$ Millions)

	January	May	Enacted
Legislative, Judicial Executive	\$4,520	\$4,144	\$4,522
Business, Consumer Service, Housing	348	291	341
Transportation	240	239	239
Natural Resources	3,812	3,547	3,616
Environmental Protection	140	42	123
Health & Human Services	47,454	45,275	44,808
Corrections & Rehabilitation	13,387	13,351	13,353
K-12 Education	59,639	47,689	48,067
Higher Education	17,509	15,372	15,795
Labor & Workforce Development	159	159	159
Government Operations	1,413	1,319	1,578
General Government*	4,462	2,463	1,299
Total	153,083	133,901	133,900

*Includes Non-Agency Departments, Tax Relief/Local Government, Statewide Expenditures.

Source: Data from California Department of Finance website,
<http://dof.ca.gov/Budget/>. Click on 2020-21 budget year and enacted document.

Chart 1



Source: Monthly cash statements of California State Controller.



California Policy Options

2021

UCLA

Luskin
School of Public Affairs